

## Message Text

CONFIDENTIAL

PAGE 01 WARSAW 01976 041629Z

43

ACTION EUR-12

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FM AMEMBASSY WARSAW

TO SECSTATE WASHDC PRIORITY 4185

C O N F I D E N T I A L WARSAW 1976

E.O. 11652: GDS

TAGS: AFIN, PL

SUBJECT: DEBT DEFERRAL AND THE 1968 ANNUITANT AGREEMENT

1. SUMMARY: I MET WITH VICE MINISTER KRZAK APRIL 3 TO PRESENT THE PROPOSAL OUTLINED IN REF A. KRZAK SAID A POLISH COUNTER-PROPOSAL SHOULD BE READY WITHIN TEN DAYS AND DEFERRED DETAILED COMMENT ON OUR PROPOSITION UNTIL THAT TIME. HE ASKED HOW WE HAD ARRIVED AT OUR ESTIMATE OF THE DOLLAR INFLOW WHICH WOULD RESULT FROM CANCELLATION OF THE 1968 ANNUITANT AGREEMENT, AND I UNDERTOOK TO PROVIDE ADDITIONAL INFORMATION ON THIS SUBJECT.

2. KRZAK WAS GREATLY DISTURBED BY THE PROPOSED DISTRIBUTION IN APRIL OF THE NOTIFICATION WE HAD PREPARED TO APPRISE ANNUITANTS OF THESE DISCUSSIONS. HIS REMARKS ON THIS POINT TOGETHER WITH OUR OBSERVATIONS HAVE BEEN REPORTED IN REF B. END SUMMARY.

3. ALTHOUGH RESERVING FORMAL COMMENT ON OUR PROPOSAL, KRZAK OFFERED SOME PRELIMINARY REMARKS ON VARIOUS ASPECTS OF THE SUGGESTED AGREEMENT. HE FEELS THE ANNUITANT PROVISIONS REPRESENT "SOME PROGRESS", BUT HE ALSO FINDS CERTAIN PROBLEMS IN THEM:

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PAGE 02 WARSAW 01976 041629Z

A) HE SAID THAT, ONCE THE CURRENT AGREEMENT IS NO LONGER IN

FORCE, THE POLISH GOVERNMENT COULD NOT UNDER ANY CIRCUMSTANCES PERMIT U.S. ANNUITANTS TO OBTAIN PKO COUPONS. CONSIDERATIONS OF EQUITY TOWARD NON-US. ANNUITANTS RULE OUT SUCH AN ARRANGEMENT.

B) HE BELIEVES THE TERMS OF THE TRANSITION PERIOD, PARTICULARLY THE EXCHANGE RATE, WILL BE VERY DIFFICULT TO NEGOTIATE.

4. KRZAK SAID THE MINISTRY WILL OFFER A CONCRETE RESPONSE ON THE EXCHANGE-RATE ISSUE. IN THIS CONNECTION, HE ARGUED THAT INTERNAL CALCULATIONS OF THE COST TO POLAND OF EARNING A DOLLAR THROUGH EXPORTS CURRENTLY USE A RATE WELL BELOW THE PKO RATE OF 33.20:1, AND HE SAID IT WOULD NOT BE POSSIBLE FOR POLAND TO BEAR ANY "EXORBITANT" CHARGES DURING THE TRANSITION PERIOD.

5. REGARDING THE DOLLAR INCOME TO BE REALIZED BY POLAND FROM TERMINATION OF THE 1968 AGREEMENT, KRZAK POINTED OUT THE SUBSTANTIAL DIFFERENCE BETWEEN OUR ESTIMATE OF \$34 MILLION OVER THREE YEARS, AND WHAT HE TERMED THE MOST OPTIMISTIC POLISH ESTIMATE, WHICH IS \$25 MILLION. I OFFERED TO OBTAIN WITHIN THE NEXT TEN DAYS AN EXPLANATION OF THE LEVEL OF ANNUITANT PAYMENTS ASSUMED IN OUR CALCULATIONS.

6. BRIEFLY TOUCHING ON THE DEBT-DEFERRAL TERMS, KRZAK NOTED THAT THE POLISH SIDE HAD INITIALLY REQUESTED A \$45 MILLION ROLLOVER AND WAS THINKING OF \$25 MILLION AS A MINIMUM POINT OF DEPARTURE FOR FURTHER NEGOTIATIONS. TURNING TO THE INTEREST RATE, HE COMMENTED THAT THE DECLINE IN LENDING RATES SINCE NOVEMBER DID NOT SEEM TO BE REFLECTED IN OUR INTEREST REQUIREMENT. IN MENTIONING REPAYMENT ARRANGEMENTS, KRZAK OBSERVED THAT THE POLISH SIDE HAS BECOME ACCUSTOMED TO A DIFFERENT SCHEDULE OF PAYMENTS. LENGTHENING THE PAYMENT PERIOD, HE SAID, WOULD BENEFIT THE U.S. SIDE BY STRETCHING OUT THE AVAILABILITY OF ZLOTIES FOR LOCAL USE.

7. KRZAK'S REACTION TO THE NOTIFICATION INTENDED FOR INCLUSION WITH THE APRIL ANNUITANT CHECKS AND HIS REQUEST THAT WE TEMPORARILY WITHHOLD THE NOTICE, HAVE BEEN REPORTED SEPARATELY (REF B). I ASSURED HIM OUR CONCERN IN THIS MATTER WAS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 WARSAW 01976 041629Z

SOLELY TO GIVE ANNUITANTS AS MUCH ADVANCE NOTICE AS POSSIBLE OF ANY CHANGE IN THEIR FINANCIAL SITUATION.

8. ACTION REQUESTED: ACCEPTANCE BY THE POLES OF OUR ESTIMATE OF THE DOLLAR INFLOW WHICH WOULD FOLLOW CANCELLATION OF THE 1968 AGREEMENT SHOULD NARROW THE GAP BETWEEN OUR POSITIONS ON THE SIZE OF THE DEBT ROLLOVER. I WOULD APPRECIATE THE DEPARTMENT'S PROVIDING ME AS SOON AS POSSIBLE WITH INFORMATION

EXPLAINING THE BASIS FOR OUR ESTIMATE OF ANNUITANT PAYMENTS  
FROM 1975 THROUGH 1978. I WOULD LIKE TO GIVE THIS EXPLANATION  
TO KRZAK BEFORE RECEIVING THE POLISH PROPOSAL.  
DAVIES

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